



COUNTRIES IN FOCUS:

North Macedonia & Cyprus

NORTH MACEDONIA1

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Economic growth is set to remain subdued in FY:23, reflecting headwinds from (still) high inflation, rising interest rates and weak external demand

CYPRUS2

Despite the challenging backdrop and Cyprus' strong ties with Russia, the economy remained resilient in FY:22 (GDP, up 5.6% against 6.6% in FY:21), underpinned by a surge in exports of tourism & business services

Tightening financing conditions and softening external demand cannot but weigh on Cyprus' economic growth in FY:23, which, nonetheless, should continue to overperform the euro area average

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NBG – Economic Analysis Division
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Emerging Markets Analysis

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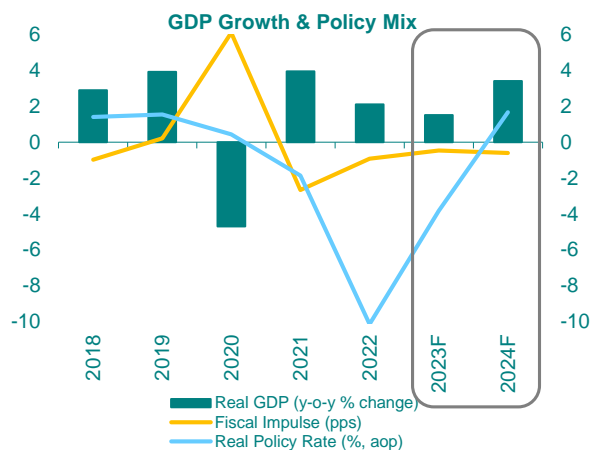
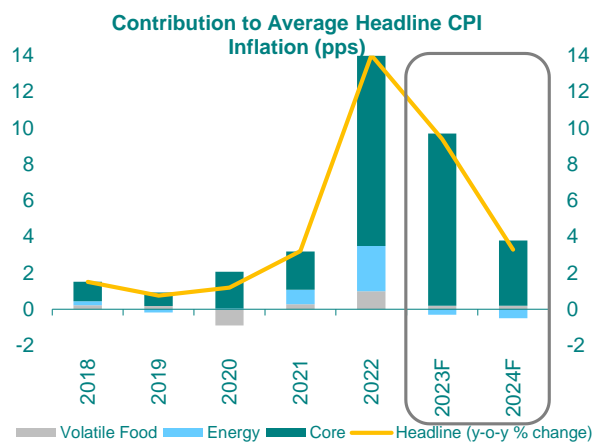
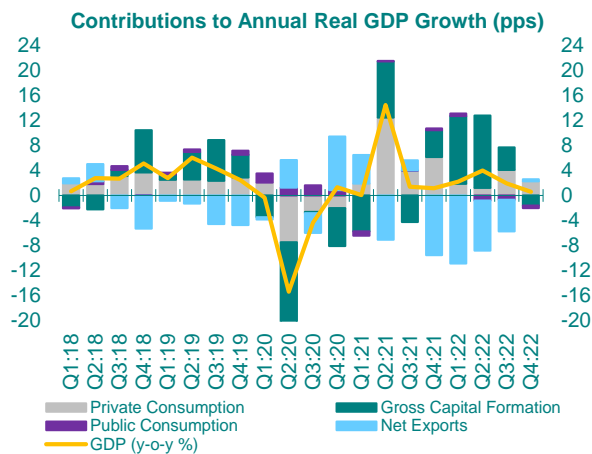
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North Macedonia

BB- / NR / BB+ (S&P / Moody's / Fitch)



	20 Mar.	3-M F	6-M F	12-M F
1-m SKIBOR (%)	3.4	3.7	4.0	4.2
MKD/EUR	61.6	61.6	61.6	61.6
Sov. Spread (2028, bps)	472	430	410	380

	20 Mar.	1-W %	YTD %	2-Y %
MBI 100	5,797	-0.7	2.6	18.2

	2020	2021	2022E	2023F	2024F
Real GDP Growth (%)	-4.7	3.9	2.1	1.5	3.4
Inflation (eop, %)	2.2	4.9	18.7	3.8	3.0
Cur. Acct. Bal. (% GDP)	-2.9	-3.1	-6.0	-5.4	-4.5
Fiscal Bal. (% GDP)	-8.0	-5.4	-4.5	-4.0	-3.4

Sources: Reuters, NBRNM, Eurostat & NBG estimates

Against a challenging backdrop, North Macedonia saw GDP growth slowing down markedly in FY:22 (to 2.1% from 3.9% in FY:21), with the economy returning to pre-COVID-19 levels, albeit with a delay compared with regional peers. The slowdown in economic growth was more pronounced in Q4:22 (with GDP growing by a mere 0.6% y-o-y), reflecting a sharp adjustment in domestic demand, on the back of record-high inflation, tightening financing conditions and heightened uncertainty. By that time, GDP growth, albeit soft, was holding up relatively well, driven by gross capital formation. The latter was underpinned by a strong build-up in inventories, in the face of record-high global energy and food prices, as well as higher public investment. At the same time, private consumption was growing at a modest pace, supported by an accommodative incomes policy (incl. a 18.5% hike in the minimum wage), with its contribution to overall growth, however, shrinking markedly compared with FY:21, reflecting, *inter alia*, a normalization in spending after the lift of COVID-19 measures. Unsurprisingly, net exports were a drag on overall growth in 9M:22, reflecting solid domestic demand and the impact of global supply disruptions, but turned neutral in Q4:22.

Economic growth is set to remain subdued in FY:23, reflecting headwinds from (still) high inflation, rising interest rates and weak external demand. With inflation due to remain elevated for most part of the year (at 9.0% on average against 14.0% in FY:22, well above the past decade's average of c. 1.0%), continuing to bite into households' disposable income, private consumption is unlikely to gain steam in the short-term. The withdrawal of several policy measures supporting the labour market (wage subsidies) should also take a toll.

At the same time, in view of sluggish growth in the EU (especially in Germany, which absorbs c. 50% of the country's total exports), net exports are not expected to add to overall growth, despite weak private consumption and the envisaged easing in global supply strains.

In fact, economic growth should be mainly underpinned by fixed investment, which is set to continue overperforming, led by the public sector (with the budget envisaging capital spending rising by 1.0 pp of GDP in FY:23). In contrast, private investment (including FDI, which has proven resilient so far) should remain subdued this year as well, reflecting tightening financing conditions and still heightened uncertainty.

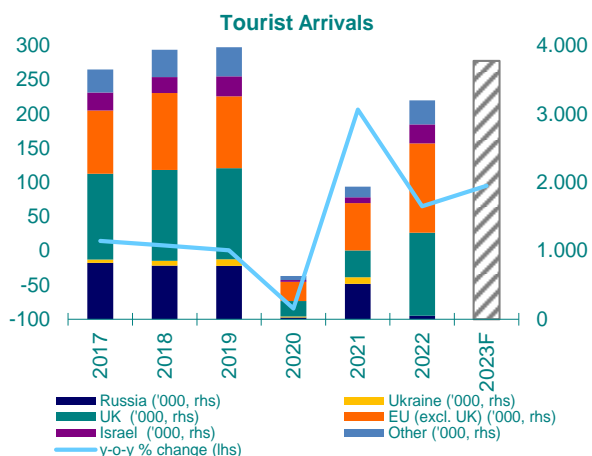
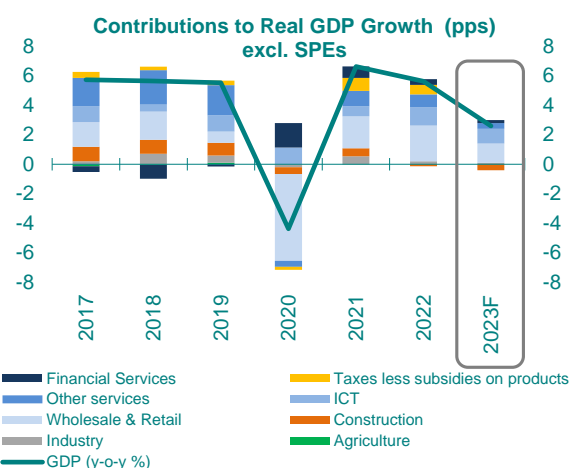
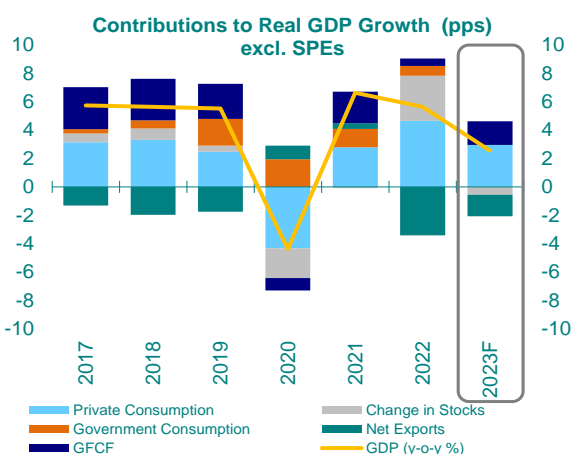
Policies are not expected to sustain economic growth in FY:23. On the one hand, we see fiscal consolidation continuing (albeit at a very slow pace) this year, with the phasing-out of stimulus measures freeing the necessary space to increase investments. On the other hand, amid high inflation and still elevated external imbalances, the NBRNM cannot but maintain its tightening bias (having already raised its key rate further, to 5.5% in early-2023 from 4.75% at end-2022 and 1.25% at end-2021).

All said, GDP growth is seen at just 1.5% in FY:23. By year-end, the output loss relative to its pre-pandemic growth path would amount to slightly less than 10.0%, double that of regional economies, reflecting, *inter alia*, the higher share of energy and food in domestic household spending, the economy's low energy efficiency as well as the relatively smaller scope for policy support, amid a sharp deterioration in external imbalances. As far as the latter is concerned, the country's 2-year PLL agreement with the IMF should curtail downside risks.

Worryingly, political noise is set to remain elevated in the period ahead, mainly surrounding the controversial deal settling the country's long-standing dispute with Bulgaria, which eventually, however, enabled the launch of accession talks with the EU. Against this backdrop, and with the opposition pressing for early elections, further delays in the EU accession progress may be forthcoming.

Cyprus

BBB / Ba1 / BBB (S&P / Moody's / Fitch)



	20 Mar.	3-M F	6-M F	12-M F
1-M EURIBOR (%)	2.8	3.2	3.3	3.2
EUR/USD	1.07	1.08	1.10	1.13
Sov. Spread (2028, bps)	176	140	135	125

	20 Mar.	1-W %	YTD %	2-Y %
CSE 100	101	-4.9	13.3	68.2

	2020	2021	2022E	2023F	2024F
Real GDP Growth (%)	-4.4	6.6	5.6	2.6	2.9
Inflation (eop, %)	-1.1	4.8	7.9	2.9	2.2
Cur. Acct. Bal. (% GDP)	-10.1	-6.8	-9.4	-8.1	-6.9
Fiscal Bal. (% GDP)	-5.8	-1.7	2.3	0.5	1.0

Sources: Reuters, CYSTAT & NBG estimates

Despite the challenging backdrop and Cyprus' strong ties with Russia, the economy remained resilient in FY:22 (GDP, up 5.6% against 6.6% in FY:21), underpinned by a surge in exports of tourism & business services. The robust economic growth rate was supported by the outstanding (export) performance of the tourism and business services sectors (accounting for 9.3% and over 30.0% of FY:21 GDP, respectively) and its positive spillover to the economy.

Indeed, despite the virtual annihilation of tourist inflows from Russia (accounting for 26.8% of tourists in FY:21), following an EU ban on Russian flights, arrivals to Cyprus surged in FY:22 (to 80% of their pre-COVID-19 level from 49% in FY:21), thanks to strong pent-up demand and authorities' efforts to attract tourists from other countries. At the same time, exports of business (mainly ICT, shipping and financial) services increased, despite the EU sanctions levied on Russian companies (with services provided to the latter accounting for a sizeable 9.0% of GDP in FY:21), following the relocation of several foreign (especially Russian, Ukrainian & Belarusian) companies in Cyprus. According to official data, more than 1100 firms with 9000 employees were registered in Cyprus during the past year.

Against this backdrop, net exports of services strengthened in FY:22, as did private consumption. The latter was also sustained by state support measures to cushion the impact of high inflation. Note that economic recovery, together with the massive relocation of foreign companies in Cyprus, led to a jump in employment (up 4.4%, with the employment rate hitting a 14-year high of 60.7%). Unsurprisingly, reflecting the small and service-oriented nature of the economy, robust private consumption and massive stock rebuilding, in the face of the jump in global commodity prices, was translated into a jump in imports. All said, GDP growth eased slightly to 5.6% in FY:22 from 6.6% in FY:21, placing Cyprus among the top positions in euro area rankings.

Tightening financing conditions and softening external demand cannot but weigh on Cyprus' economic growth in FY:23, which, nonetheless, should continue to overperform the euro area average.

After stagnating in FY:22, we expect investment (especially in non-construction projects) to take a leading role this year, supported by the implementation of the RRF Plan (with Cyprus due to receive funds worth 5.1% of its FY:21 GDP in 2021-26) and the expansion of the economy's business base (especially in the ICT sector).

At the same time, private consumption is set to continue growing, albeit at a slow pace, as household purchasing power should remain constrained by elevated inflation (especially in H1:23). Tightening financial conditions and poor consumer confidence cannot but also take a toll. The automatic public wage & pension indexation (to 50% and 100%, respectively, of past year's inflation) and still high savings should cushion downside risks, however.

Worryingly, slow economic growth and still elevated inflation in Cyprus' main trade partners mean that export growth is set to ease this year, yet remain positive, continuing to be driven by tourism and ICT services.

All said, we see GDP growth easing to 2.6% in FY:23 -- slightly above its long-term potential and well above that of the euro area (up 1.0%) -- reflecting, *inter alia*, a weak carry-over effect (of just 1.5 pps against 2.7 pps in FY:22). Despite recent deleveraging, private sector's indebtedness remains high (at c. 240% of GDP), posing a strong downside risk to economic outlook, in view of rising interest rates (note that c. 95% of debt contracts in Cyprus have variable interest rates).

Importantly, domestic banks remain well capitalised and highly liquid, easing concerns over a potential spillover effect from the ongoing global banking turmoil.

DETAILED MACROECONOMIC DATA

NORTH MACEDONIA					
	2020	2021	2022f	2023f	2024f
Real Sector					
Nominal GDP (EUR million)	10,874	11,708	12,917	14,339	15,316
GDP per capita (EUR)	5,889	6,374	7,061	7,870	8,439
GDP growth (real, %)	-4.7	3.9	2.1	1.5	3.4
Unemployment rate (% aop)	16.4	15.7	14.4	14.4	14.1
Prices and Banking					
Inflation (% eop)	2.2	4.9	18.7	3.8	3.0
Inflation (% aop)	1.2	3.2	14.0	9.4	3.3
Loans to the Private Sector (% change, eop)	4.7	8.0	9.3		
Customer Deposits (% change, eop)	6.2	8.5	5.1		
Loans to the Private Sector (% of GDP)	53.0	53.2	52.7		
Retail Loans (% of GDP)	27.8	27.8	27.1		
Corporate Loans (% of GDP)	25.2	25.3	25.6		
Customer Deposits (% of GDP)	61.0	61.5	58.6		
Loans to Private Sector (% of Deposits)	86.8	86.5	89.9		
Foreign Currency Loans (% of Total Loans)	41.6	40.7	42.5		
External Accounts					
Merchandise exports (EUR million)	4,820	6,000	7,346	7,516	7,969
Merchandise imports (EUR million)	6,623	8,371	10,799	11,274	11,850
Trade balance (EUR million)	-1,804	-2,370	-3,453	-3,758	-3,881
Trade balance (% of GDP)	-16.6	-20.2	-26.7	-26.2	-25.3
Current account balance (EUR million)	-0,318	-0,366	-0,772	-0,776	-0,683
Current account balance (% of GDP)	-2.9	-3.1	-6.0	-5.4	-4.5
Net FDI (EUR million)	0,155	0,388	0,670	0,637	0,684
Net FDI (% of GDP)	1.4	3.3	5.2	4.4	4.5
International reserves (EUR million)	3,360	3,643	3,863	4,163	4,413
International reserves (Months ^a)	5.3	4.5	3.7	3.8	3.9
Public Finance					
Primary balance (% of GDP)	-6.8	-4.1	-3.3	-2.8	-2.1
Fiscal balance (% of GDP)	-8.0	-5.4	-4.5	-4.0	-3.4
Gross public debt ^b (% of GDP)	59.3	60.5	57.6	56.7	57.6
External Debt					
Gross external debt (EUR million)	8,536	9,577	10,075	10,568	11,134
Gross external debt (% of GDP)	78.5	81.8	78.0	73.7	72.7
External debt service (EUR million)	3,300	3,550	3,300	3,700	3,300
External debt service (% of reserves)	98.2	97.4	85.4	88.9	74.8
External debt service (% of exports)	52.7	45.8	34.1	36.8	30.8
Financial Markets					
28-d CB bill rate (% eop)	1.5	1.3	4.8	5.5	4.8
28-d CB bill rate (% aop)	1.6	1.3	2.5	5.4	5.1
1-Y T-bill rate ^c (% eop)	0.4	0.7	3.5	4.4	4.0
Exchange rate: EUR (eop)	61.6	61.6	61.6	61.6	61.6
Exchange rate: EUR (aop)	61.5	61.5	61.5	61.6	61.6

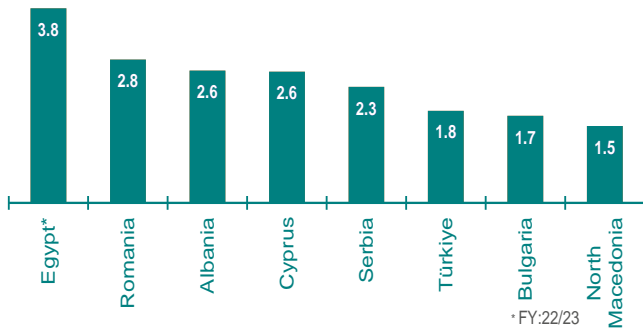
f: NBG forecasts; a: months of imports of GNFS; b: incl. guaranteed debt; c: primary market

CYPRUS					
	2020	2021	2022f	2023f	2024f
Real Sector					
Nominal GDP (EUR million)	21,895	24,019	27,012	28,666	30,260
GDP per capita (EUR)	24.546	26.677	29.675	31.150	32,254
GDP growth (real, %)	-4.4	6.6	5.6	2.6	2.9
Unemployment rate (% , aop)	7.6	7.5	6.8	6.7	6.5
Prices and Banking					
Inflation (% , eop)	-1.1	4.8	7.9	2.9	2.2
Inflation (% , aop)	-0.6	2.4	8.4	3.5	2.6
Loans to the Private Sector (% change, eop)	-5.6	-5.0	-12.1		
Customer Deposits (% change, eop)	-0.6	5.4	2.8		
Loans to the Private Sector (% of GDP)	132.0	114.3	89.3		
Retail Loans (% of GDP)	61.2	50.9	42.6		
Corporate Loans (% of GDP)	70.8	63.4	46.7		
Customer Deposits (% of GDP)	188.0	180.7	165.2		
Loans to Private Sector (% of Deposits)	70.2	63.2	54.0		
Foreign Currency Loans (% of Total Loans)	---	---	---		
External Accounts					
Merchandise exports (EUR million)	2,969	3,590	4,215	4,187	4,194
Merchandise imports (EUR million)	7,180	7,907	10,292	10,403	10,554
Trade balance (EUR million)	-4,211	-4,318	-6,076	-6,216	-6,360
Trade balance (% of GDP)	-19.2	-18.0	-22.5	-21.7	-21.0
Current account balance (EUR million)	-2,202	-1,638	-2,549	-2,319	-2,091
Current account balance (% of GDP)	-10.1	-6.8	-9.4	-8.1	-6.9
Net FDI (EUR million)	7,454	4,369	4,369	5,571	6,963
Net FDI (% of GDP)	34.0	18.2	16.2	19.4	23.0
International reserves (EUR million)	---	---	---	---	---
International reserves (Months ^a)	---	---	---	---	---
Public Finance					
Primary balance ^b (% of GDP)	-3.7	0.1	3.8	2.1	2.6
Fiscal balance ^b (% of GDP)	-5.8	-1.7	2.3	0.5	1.0
Gross public debt (% of GDP)	113.5	101.0	86.5	81.7	77.5
External Debt					
Gross external debt (EUR million)	175,543	168,003	180,003	178,003	176,003
Gross external debt (% of GDP)	801.8	699.5	666.4	620.9	581.6
External debt service (EUR million)	---	---	---	---	---
External debt service (% of reserves)	---	---	---	---	---
External debt service (% of exports)	---	---	---	---	---
Financial Markets					
Policy rate (ECB refinancing rate, % , eop)	0.0	0.0	2.5	4.0	3.5
Policy rate (ECB refinancing rate, % , aop)	0.0	0.0	0.7	3.7	3.8
3-Y T-bill rate (% , eop)	-0.1	-0.2	2.6	3.8	3.6
Exchange rate: USD (eop)	1.221	1.137	1.070	1.120	1.160
Exchange rate: USD (aop)	1.142	1.183	1.053	1.115	1.140

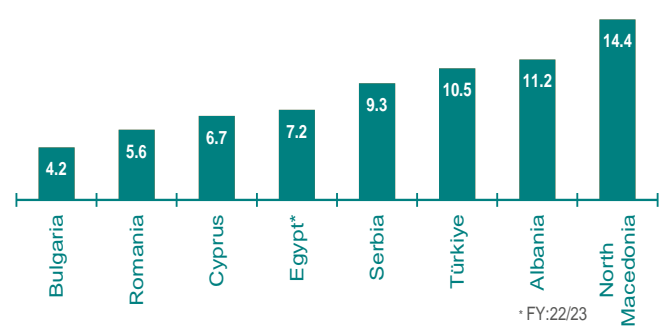
f: NBG forecasts; a: months of imports of GNFS; b: cash basis

REGIONAL SNAPSHOT: MACROECONOMIC INDICATORS

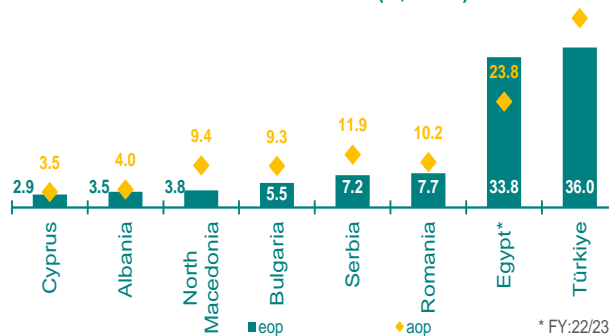
Real GDP Growth (% , 2023F)



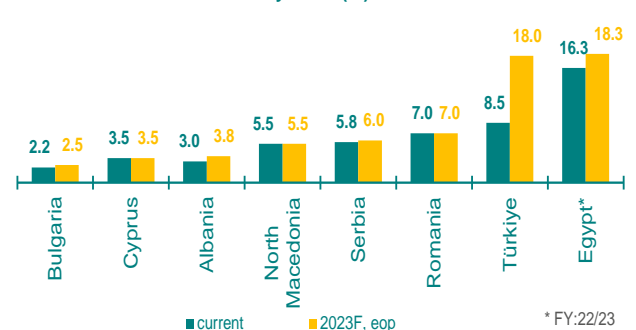
Unemployment (% , 2023F, aop)



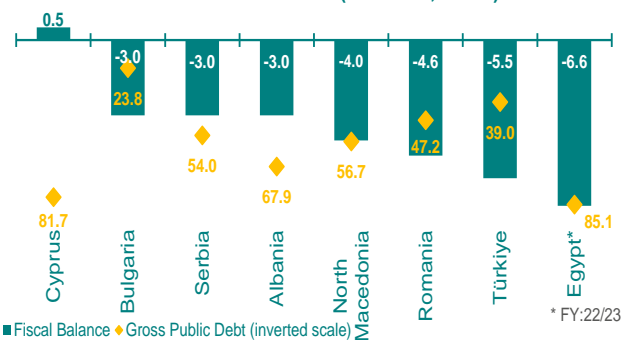
Headline inflation (% , 2023F)



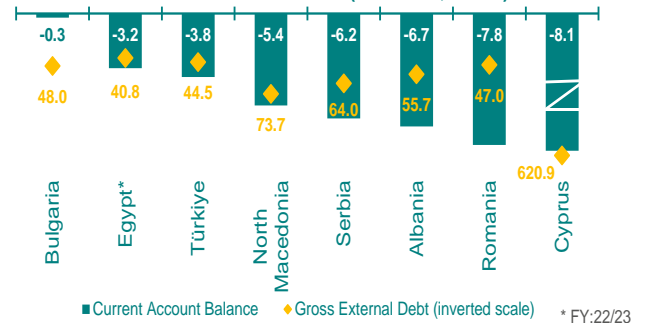
Policy rates (%)



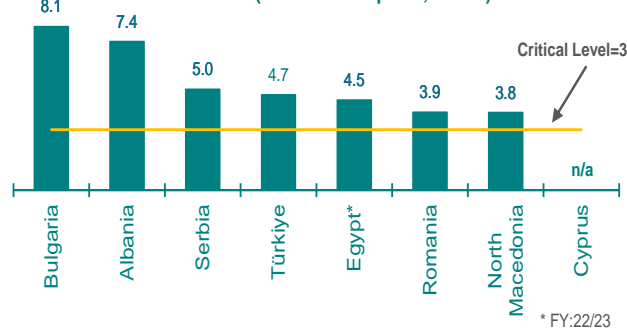
Public Finance (% of GDP, 2023F)



External Accounts (% of GDP, 2023F)

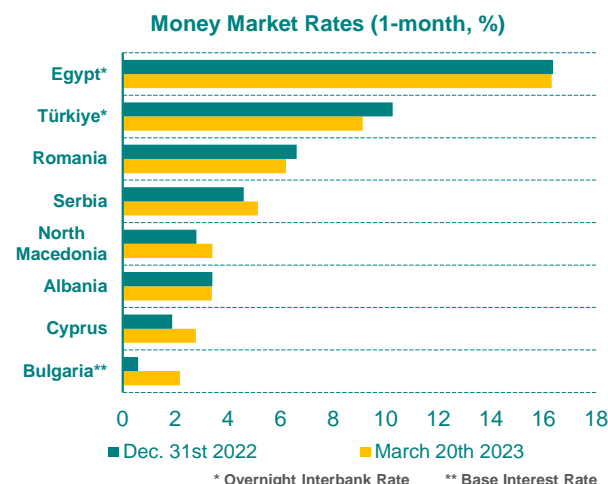
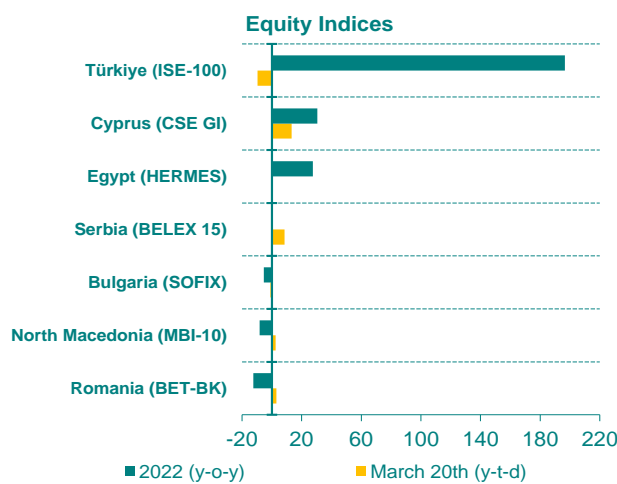
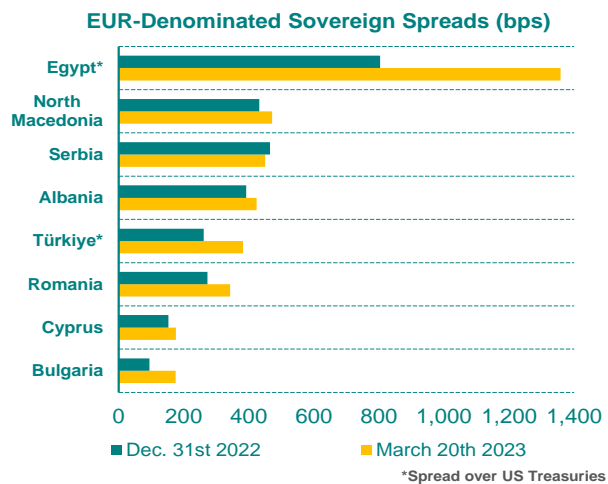
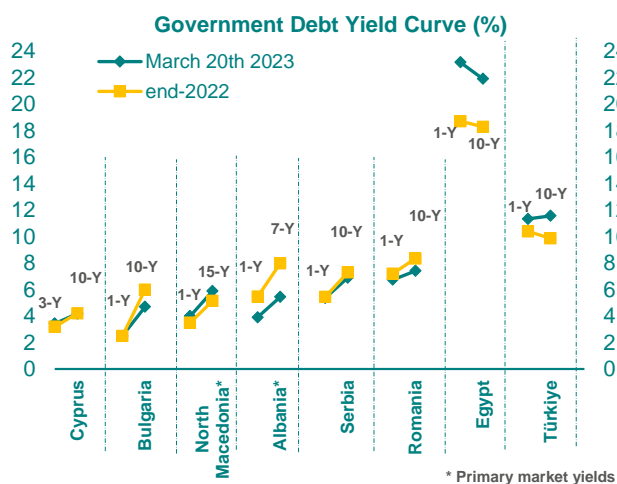
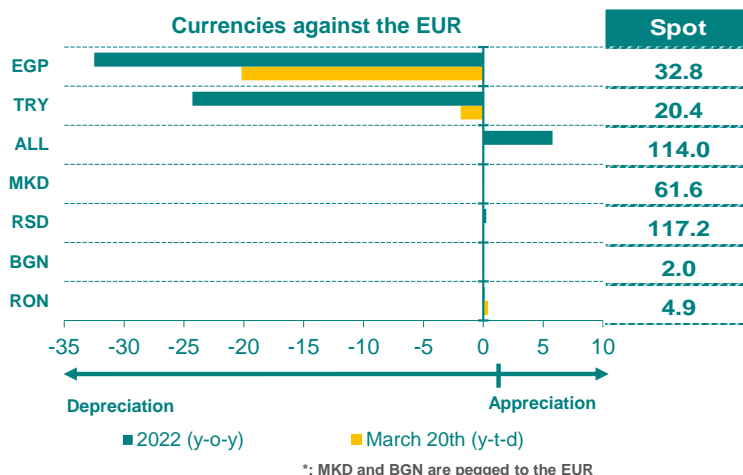


FX Reserves (Months of Imports, 2023F)



Sources: National Sources & NBG estimates

REGIONAL SNAPSHOT: FINANCIAL MARKETS



Sources: Reuters & NBG estimates

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